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ABSTRACT

Until the end of the 19th century there were basically two traditions in American universities, all of which, for practical purposes, were private, nonprofit institutions. The first and unquestionably more important of these traditions was that of the church-related college. The second great tradition was the notion of elitist, liberal education. The big change in American higher education patterns came with the expansion of state university systems, particularly after the Morrill Acts of 1862 and 1890. Presently, there are three conceivable organizational schemes for the operation of universities. These are the free market organization, dictatorship, and a cooperative system. The university world is presently in the process of passing from the second to the third of these without the first ever having been seriously tried. The third model, the co-op model, is meant to imply joint ownership by a large group of people. But multiple ownership with delegated, centralized management and transferable interests guarantees results quite different from those found in the typical business corporation. The net result of this form of administration and decisionmaking is inevitably a negotiated compromise of the various conflicting interests within the faculty. One of the less publicized effects of this developing organizational system is the extreme difficulty in implementing any innovation or change. This entire arrangement is bolstered by arguments about academic freedom, which most often is a claim for power without responsibility. (Author/PG)

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The Political Economy of Modern Universities

Henry G. Manne

A bleak forecast for the future of trustees . . . a group that seems well on its way to near impotence. All indications are that the sterilization of boards of trustees will continue, with occasional signs of life here and there. (The Editor invites comments on this article, for later report.)

Until near the end of the nineteenth century there were basically two traditions in American universities, all of which for practical purposes were private, non-profit institutions. The first and unquestionably more important of these traditions was that of the church-related college. These were schools founded either to promote religion and inculcate certain values or to train students for the ministry. And, of course, some schools did both. In one fashion or another the great bulk of private universities in America, ranging all the way from the very early schools like Harvard and Dartmouth to the later group of small midwestern colleges like Antioch, or the primeval University of Chicago, had strong denominational influence.

The fact that many of these schools were founded in order to give religious training had a direct effect on the behavior of everyone concerned with these schools. Unlike the modern university with many and diverse goals, these schools had a specific objective. The trustees, administrators and faculty, as well as students, all understood that the school was basically a means to achieve doctrinal conviction. It could be said that the donors of funds were purchasing primarily religious training and only incidentally other kinds of education.

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The founders of these schools in effect "purchased" their own utility or satisfaction in the form of religious training for their and others' children. Presumably their satisfaction came from the knowledge of the religious values inculcated in the students. Had there been private purveyors of college religious training, the founders of these schools might as well have taken advantage of market specialization and allowed others to produce what they purchased. As it was, they had to produce this commodity for their own use. Their situation was analogous to that of mid-nineteenth century farmers who mortgaged their lands in order to help finance railroads. They did not do this in order to become investors in the railroad industry. Their motivation was rather to purchase transportation in order to get their commodities to market. Their concern, as illustrated by numerous nineteenth century law cases on the subject of *ultra vires*, was with access to freight cars rather than with profitability from the operation of the railroad.

Under this approach, discretion in the allocation of the college's resources was very limited. The responsibility of all individuals to maximize the religious training purchased with the given funds was well understood. Thus the behavior of trustees and administrators was not unlike that of any businessman interested in producing at a specific and definite cost the largest amount possible of a specific commodity. And the trust form of organization was eminently suited to this outlook. It allowed the donors of funds or their friends to manage the operation without any interference from market competitors. After all, donors did not want the flexibility and potential for change inherent in a business firm competing in a marketplace. The traditional corporate or proprietorship form of organization would only have been appropriate for entrepreneurs planning to profit from the normal sale of education to consumers of it.

Another special financial aspect of religious involvement with universities played a role in the modern development. Probably to some extent because of constitutional doubts on the issue, these schools were regularly extended exemptions from local taxation. Most non-profit institutions that received this privilege in the late eighteenth and early nineteenth century America were church related, and the First Amendment's interdiction of laws "representing a religious establishment" was thus easily converted into an indirect form of government subsidy to denominational colleges. Again the legal history of this phenomenon is not altogether clear, and there were nondenominational tax-exempt charitable institutions in America as well. The fact remains, nonetheless, that quite early this form of government subsidy was well established for private schools. Clearly by itself it would have influenced any school's founders to adopt the non-profit form of organization.

The second great tradition in American private education, while not inconsistent with the other, is distinguishable enough to be addressed separately. This was the notion of elitist, liberal education. In this tradition, education was viewed as a kind of luxury "consumption good" designed to train an affluent class of aristocrats, or dilettantes, in the humane arts. Undoubtedly, a number of the private colleges originally founded as denominational schools moved into this second category, and at the present a great many of these have ceased to reflect any denominational interests whatever.

Strangely, however, the political economy of this kind of school was not fundamentally different from that of the denominational school. These institutions were in the truest sense of the word "class" establishments, and the class was unmistakably upper. It would have been very difficult in nineteenth century America to find many people who could afford the luxury of three or four years of humane studies, which is what these schools offered almost exclusively. This would be true even though tuition was free and other costs were subsidized, since few students would have the necessary educational background; a vast number would simply have no interest; and an even larger number would still not be able to afford the sacrifice of four years without gainful employment.

But be that as it may, these institutions were in large measure consciously designed to preserve them as intellectual and social sanctuaries for America's version of an aristocracy. Again the trustees of such schools had a clear purpose by which to test their every action. And so long as administrators and faculty understood the purpose, there could be no question about the locus of authority, nor was there much pressure for a different organizational scheme.

Manifestly, the ultimate locus of control rested with those individuals who financed the institutions. It is probably the case that individuals making large gifts to quasi- or non-denominational private schools did so with the idea of benefiting their own social class, and perhaps occasionally the "deserving poor." This class, of course, was not a European-type aristocracy. But that made no difference, since their goals in this endeavor were fundamentally the same, i.e., to insulate their children from other social classes, to educate them in a rather luxurious fashion and, finally, to inculcate in them the values of the system in which their families had prospered.

There were certain characteristics of these schools, of which Columbia and William and Mary were perhaps early examples, with Northwestern, Vanderbilt and Stanford as later prototypes, that followed from their purpose and mode of organization. The individuals who gave large sums of money to these schools either became the trustees of the

schools, selected the trustees, or had fairly close relations to them. That is, these individuals, like the churches and individual religious donors to denominational schools, were still primarily interested in producing a certain kind of education for a select group of individuals. They did not intend to be establishing anything like a business firm selling to the public and only incidentally operated on a not-for-profit basis. And since the money was really used by them to "purchase" a commodity, trustees kept a close watch on what were to them, and remain to this day, the three most siginficant aspects of university governance: who were admitted as students, including the conditions on which they could remain students; who taught courses; and what was taught.

Certainly no one would have conceived in most of these schools of admitting blacks, or even whites, who could not readily afford some financial drain, albeit subsidized. When members of minority religious groups were admitted, it was inevitably on a strict quota basis. Brilliance and scholarship, while respected, were not the virtues most highly regarded for either students or teachers. Loyalty to the cultural or religious ideals of the institution was far more important than grades, publications, or inventions. This is not to say that trustees were necessarily opposed to the other qualities in teachers but, rather, that there was no reason to focus exclusively on intellectuality.

Further, there must have existed something approaching an implicit oath of loyalty to the ideals and attitudes the institution was established to preserve. Certainly the notion of academic freedom as a protection for teachers in their search for truth would not have been advanced in most nineteenth century universities. This is not to say that by then scientists would not have been concerned to protect their objectivity and integrity, but science was certainly not yet a kingpin of universities.

Clearly, if universities were to function efficiently as the means by which donors "produced" attitudes for a certain set of students, it was necessary to avoid a competitive market situation in which consumer preferences would be catered to. This could only be guaranteed if the education was offered at a "bargain" price, that is, below full cost. If schools began to cover all costs by tuition, students or their parents would have been converted into "consumers" and would have exercised normal market controls over competing sellers. Only by maintaining the form of a non-profit institution, subsidizing as it were the students who could take advantage of the program, could the donors continue to control the substance of what was taught, who taught it, and to whom it was taught. Thus there were no "consumers" who could be sovereign, since no school was established to "sell" their product on a competitive, businesslike basis.

This pattern, which probably predominated in the late nineteenth century, generated much of the popular image of universities. The college graduate had not only received an education but he had, incidentally to be sure, a certain social status which others aspired to. And it was not his potential for high income resulting from his education that gave him this status; on the contrary, his status as a college graduate was proof that he had "already arrived," socially and financially. It was this status, of course, which educational democratizers sought to capture, though they frequently were confusing cause and effect.

Let us look at some of the new influences on universities to get some idea of how change began to come about in this older pattern. The big change in American higher education patterns came with the expansion of state university systems, particularly after the Morrill Acts of 1862 and 1890.

There were, first, significant educational effects that flowed directly from the introduction of political forces into the world of higher education. Though the children of wealthier parents generally gained the greater advantage from this subsidized education, there was nonetheless no guiding purpose for these institutions comparable to that already described. There were constitutional inhibitions on religious training and, though the tradition of liberal arts education survived in some measure, political pressures pushed state schools toward the more "practical" programs, the ones designed to help students earn a living. Even today the tradition of humane letters and liberal arts is generally felt more strongly in the private universities than in the public ones.

With the advent of the public university a great deal of the private support which had formerly gone for private universities disappeared. Competition for students became much more keen, as few parents could afford to forego the higher implicit subsidy of the lower-tuition state university. And very important for the analysis to follow, the demand for teachers increased. Since the state universities could not politically or legally hold to a particular religious or cultural standard, instructors began to be selected from religious and socio-economic groups which had not regularly been considered previously. These individuals, of course, could not necessarily be expected to feel a loyalty to a different culture. Thus the attitudes prevalent on campuses began to undergo a radical shift if for no other reason than that they became neutral or positive, rather than religiously oriented or culturally directed.

Other important influences on the modern university are strictly twentieth century developments. First among these would be high personal income tax rates, with contributions to non-profit univer-

sities or foundations being deductible from gross income. This had the effect of lowering the "price" of charity, thus increasing the amount of utility "purchased" through charitable contributions. This increase in contributions might have generated more of the kind of control traditional donors exercised over universities, but, by and large, it was too late. No longer could a donor "purchase" anything but the satisfactions afforded by his contributions to education as directed by others. Only in rare instances and for very large sums could he impose his will on the object of his charity.

Recent years have also seen a tremendous increase in the amount of government sponsored research, as well as government contributions to private universities for buildings, salaries, and tuition. And finally the advent of large scale private consulting, particularly by the science faculties, has probably had a significant influence on the behavior of academics.

As government and foundations increased in financial importance relative to individual donors – at least for many of the specific things that individual faculty members want – it became more and more difficult for trustees to influence faculties at all. And as outside consulting and research became readily available for academics, this too tended to loosen the financial hold of donors and trustees.

All this has caused a radical shift in the position of the trustees on matters of university governance. There is no longer any way for trustees to keep faculty members "in line." There is not even a "line" for trustees as such at all. Their interest in serving has become only the weaker reed of community status or prestige. Instead of being directed by trustees, the modern private university has become "democratized," with an almost total loss of trustees' control over the three principal ingredients of university policy – student admissions, faculty hiring and curriculum.

Indeed, the most significant characteristic of the modern university trustee is his almost total lack of real interest in exercising any authority. He could hardly feel a real personal responsibility for the "values of western civilization" or whatever amorphous goal he might talk about at annual dinners. He does not generally have any strong feeling, certainly, for the question of who generally should be admitted to receive the school's subsidy in the form of lower-than-full-cost tuition. This right to determine admissions policy was given up long ago by trustees.

Somewhat similarly, the trustees have no power to determine which views will be taught in universities. There are still denominational schools where this is not completely true but, save these, the modern notion of "academic freedom" has given the faculty effective power over subject matter in the university and over its curriculum. Especially

in very technical fields, this was said to have represented merely the trustees' deferring to the expertise of the faculty. But what that indicates is that the trustees had nothing significant to gain by exercising this power and, therefore, it was no great loss to give it up to teachers who did have something to gain by it, as we shall see.

Any prestige left to the position of university trustee no longer derives from the power the position carries. No longer are there favors that can be allocated to one's friends. Such prestige as there is today comes only from the traditional prestige of the office and certainly not from fighting for any particular ideology or standard. Although the trustees are still expected to assist in fund raising for the university, it is largely on the same basis as they would assist in fund raising for the local art gallery, orchestra or museum. It is just that the university is usually larger and still carries more prestige than other community activities. But it is doubtful whether in years to come the relative status position of university trustees will be much higher than that of trustees of any other comparably sized eleemosynary institutions.

The last sporadic fights for the vestiges of control left in the hands of trustees are now being waged. These disruptions may frequently result in great losses of time, or embarrassment, or unfavorable publicity for members of the board of trustees. These have become new "costs" of being a trustee, and consequently we should anticipate in future years that there would be some lessened willingness on the part of prominent individuals to assume the risk of serving on a university board. Thus, trustees' power will shrink even more.

This is a rather bleak forecast for the future of boards of trustees of universities but, in fact, that group seems well on its way to near-impotence. Since universities and faculties have developed independent sources of funds, there is not the compulsion that used to exist to appoint affluent trustees, though that is still the politic – or should I say economic – thing to do. In fact, the composition of these boards is already changing, as we find students, teachers and even employees serving on the boards. It must be acknowledged, however, that for most schools there is still some concern with the flow of funds from trustees and their friends. Where that factor is most important, the college board tends to exercise more control over university policy. Probably this degree of control will never completely disappear.

The legal form of trustee "ownership" of the university is a fairly efficient one, and it has the added advantage of familiarity. Like the English monarchy, it would probably change only if the trustees actually tried again to control academic policy. And that does not seem very likely, since there is really

very little for them to gain by the exercise of such power. All indications are that the sterilization of boards of trustees will continue, with occasional signs of life here and there, usually based on an unusually strong individual personality. But these will be like comets that flash brilliantly for a while and then disappear.

When we refer to the administration, we generally mean the top administrative executive, here for convenience called the president. Not surprisingly, the general style and character of a university president will reflect the real power interests within the institution. That is, he will be selected on the basis of characteristics which please or benefit those individuals actually exercising the selection power.

It should be possible, therefore, to make some accurate deductions about the characteristics that will be demanded under different selection-power arrangements. Thus, in the goal-directed, traditional university, presidents were probably sympathetic with and similar in qualities to the active and powerful members of the Board of Trustees. Such individuals might, if all the conditions were right, display qualities of imagination, forcefulness and innovation. They were, as we know, frequently quite autocratic. But only as trustees delegated part of their managerial power to the president do we find imposing figures like Nicholas Murray Butler at Columbia or William Rainey Harper at Chicago. Unquestionably, such appointments reflected a true dedication on the part of trustees to creating an institution of very high academic quality.

But the much more significant change in preferred characteristics of college presidents came as the real decision-making power shifted from the trustees to the faculty. Whereas, in an earlier era, the trustees may have wanted a strong leader, a "general" to carry out their policies, the interest of faculties was in a different kind of president. Perhaps first and foremost they were interested in a fund raiser. He was not supposed to bring his personal influence to bear on issues of educational policy. He was simply supposed to keep the money flowing in from outside sources.

Thus, as the main source of funds began to shift from individuals to large foundations and government, the interest of presidential selection committees shifted to individuals with political know-how or good contracts in the government and foundation worlds. Recently as money matters have seemed to take a back seat to the explosive issue of campus violence, the search has been for men best suited for resolving disputes and mediating between contending factions, a responsibility which, as Allen Wallis eloquently pointed out in last year's Walgreen Lectures of the University of Chicago, had lain in limbo for years between administrators and faculty. But as the violence dies

down, faculties will again recognize that the president is the key man for raising funds, and probably the presidential recruiting pattern of the 1950's and early 1960's will prevail. The permanent impact of the recent disruptions on presidential qualifications still remains to be seen.

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Basically there are three conceivable organizational schemes for the operation of universities. These are the free market organization, dictatorship and a cooperative system. The university world is presently in the process of passing from the second to the third of these without the first ever having been seriously tried. Consumer preference could operate in this field as well as in any other, and meaningful competition with no significant external costs could prevail. The means for reaching such a state of affairs are simple to describe, though they are very unlikely to occur.

First of all the government would have to get out of the education business itself. No strong argument has ever been made for government ownership and operation of universities. But if this is too radical a move, a step in that direction might be for the state to give students tuition chits for use in any university of their choice, as happened with the World War II G.I. Bill of Rights. This could substantially improve the quality of higher education offered, since it would encourage some desirable competition across state lines as well as possibly across doctrinal lines. There are, however, clear long-run dangers to this course as well, which may not have shown up in the G.I. Bill because of its limited life. On balance, it appears preferable to the present government ownership and operation of the universities, but the answer is not absolutely clear.

Next, both state and federal tax exemptions for not-for-profit universities would have to be repealed, as would the deduction for federal income tax purposes of contributions to universities. These are nothing more than indirect subsidies by government to private educational institutions, and there is no apparent justification for this reallocation of taxpayers' wealth.

If these tax changes were made and other direct subsidies were cut off, the only "free" source of funds for private universities would be income from their existing endowments. This, too, would need changing, even though there would obviously be tremendous legal difficulties in rearranging the use of present trust funds to an altered purpose. There are a variety of ways that this could be handled. Trustees could, for instance, continue to function formally but contract full management rights out to a private, proprietary enterprise. Or the "trust funds" could be separated from other capital assets and administered independently by the trustees solely for scholarships. Probably, if other

changes occurred, the legal doctrine of *cy pres* [as near as practicable to the testator's wish (legal)] could be used in effect to allow endowment funds to be directly administered by trustees for a variety of purposes as our large foundations are today, though one cannot take too much satisfaction from that. Logically, there would be no reason to limit the possible beneficiaries to the one previous entity, since it would no longer, in and of itself, be an appropriate object for charity.

But the most difficult question is how to gain the benefits of open market competition for university level education. I do not mean to be facetious when I suggest that we give the universities to the faculty. For all but purely formal legal purposes, they own them now, except that the present arrangement is a very inefficient one for education. If the *de facto* ownership of the faculty were recognized *de jure* by giving them shares of stock or other transferable share interests in the university, there might even be little outcry from the faculties about the conversion, though generally they are horrified at this proposal and think proprietary universities simply unthinkable. Actually, the identity of the owners of a proprietary university would be less important than the fact that transferable interests existed. This would, in time, guarantee some of the competitive benefits realized in our corporation system from the fact that ownership interests are transferable.

In any event, even without that last radical step, as all subsidies disappeared, universities would find it in their interest to behave more like proprietary institutions. They would at least have to cover all real costs by the income from their endowment and operations, as we see with smaller, financially squeezed schools today. If that did occur, proprietary institutions could at least compete with the non-profits and, in all likelihood, demonstrate that they answer market demands better than non-profit institutions, just as has already occurred with hospitals. There isn't space to spell out how a free market for education would function in all its particulars, but there is no apparent reason why it could not perform satisfactorily.

The second model for a university is fundamentally the non-profit organizational scheme described as the nineteenth century norm earlier in this paper. It generally implied a hierarchical administrative structure, a strong president and an administratively weak faculty. This arrangement was adopted in the earlier period because it was appropriate to the goals of the donors. It could only reappear in our larger private universities today if, by a miracle at least as profound as the one I proposed for making universities profit makers, the interests of trustees and donors became quite different than they are now.

The third model, the one rapidly becoming the only one in the uni-

versity world, is the co-op model. This term is meant to imply joint ownership and management by a large group of people. It does not mean that there are no property rights in university assets. On the contrary, it is quite clear that faculty has managed to establish strong claim to being considered "owners" of the modern university. But multiple ownership without delegated, centralized management and transferable interests guarantees results quite different from those found in the typical business corporation.

Because faculty members eschew market allocations of resources and prefer the model of political systems, the tendency in universities today is towards a form of democratic decision making. In its most extreme form, at schools like Columbia and Cornell, this takes the form of a constituent assembly. This is a legislative body with representation by faculty, students and the administration. But, as in Orwell's *Animal Farm*, some of these are more equal than others, and clearly the faculty represents the only continuing, identifiable groups with specific interests in the way universities are operated.

The net result of this form of administration and decision making is inevitably a negotiated compromise of the various conflicting interests within the faculty. Various parts of the faculty, unlike the administration and the students, will actively fight for a large part of the pie. But overt fights would weaken the faculty vis-a-vis the other groups. Therefore, to avoid this, various power groups within the faculty will negotiate and bargain until they have established their claims.

It will then be in everyone's interest to prevent disruptions. In effect, each contending interest group gives up any responsibility for overall university affairs in exchange for the right to be financed and then left alone. The function of the administration and the trustees in this model will be to insure that sufficient funds flow in either from government or private sources to allow everyone to survive in his present state.

It might be noticed – and not occasion surprise – that this is fundamentally the model we find in continental European universities today. It is consistent with the legal theory in civil law countries that universities are independent, quasi-sovereign powers. They are permanently funded by government; there is very little innovation or change; each department or institution becomes highly bureaucratized; advancement in the system is exclusively through personal favor rather than ability; there is little flexibility or adaption to change; and the students understand that they are receiving a very poor education.

One of the less publicized effects of this developing organizational system is the extreme difficulty in implementing any innovation or

change. Since any new idea is potentially destabilizing, everyone presently satisfied with his condition opposes any change. This is especially so if the innovator suggests that existing departments or individuals give up any resources in order to finance a new program. Consequently, any new program must be supported by entirely new funds which will be given expressly for that purpose and not to the university at large. This possibly explains the large number of so-called "institutes" in European schools and the increasing number in America. It becomes nearly impossible in this system for a university to react to changes in market demand or new circumstances without wild and disruptive fights.

This entire arrangement is bolstered by arguments about academic freedom, which is the American version of the pseudo-sovereignty enjoyed by European universities. In either case, it is most often a claim for power without responsibility.

One last implication of this arrangement might be noted. The people who survive and prosper in this system will tend to be those with the characteristics most adaptable to this environment. That signifies a low level of innovation, and by indirection strong aversion to risk. There is no reason to believe that people with these characteristics will not reflect them in their doctrinal views. In other words, it would be highly surprising for a large population which has established its suitability for a bureaucratic, non-profit oriented, political environment to advocate market solutions to any problem.

Thus it may be that the university world today naturally attracts people who inherently favor collectivist, statist, nonmarket attitudes. The entire university world then becomes a massive device, heavily financed by taxpayers, for propagating a point of view which, while perhaps not illogical for those espousing it, excludes the fair consideration of any other doctrine. The real costs of having non-profit educational institutions may, in this sense, be vastly greater than we have generally recognized.